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SIPDIS

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TAGS: [ECON](#) [EFIN](#) [SA](#) [BA](#)
SUBJECT: BANK DEFAULT CAUSES RIPPLES IN BAHRAINI BANKING
SECTOR

REF: DHAHRAN 116

Classified By: CDA Christopher Henzel for reasons 1.4 (b) and (d)

¶1. (C) Summary: The financial dispute between the Saad group controlled by Saudi billionaire Ma'an Al Sanea and the Al Ghosabi company (reftel) is affecting a number of Bahrain-based financial institutions. End Summary.

¶2. (C) The Central Bank of Bahrain was apparently taken by surprise by the May credit default of TIBC and the suit against Sanea and Awal Bank. In public statements, Central Bank Governor Rasheed Al Maraj said that the CBB was trying to establish how the reported liquidity position of these banks could have deteriorated so suddenly, insisting that the problem was isolated to these banks and not indicative of the sector. Despite these public assurances, the Central Bank has moved to place internal auditors in Awal, TIBC, and two other banks.

¶3. (C) Yasser Al Ajaji, a senior auditor in the CBB's Financial Stability Unit, told econoff that CBB auditors are closely monitoring banks that may be affected by the default of, and dispute between, the Saad Group and the Al Ghosabi & Brothers Company. According to Ajaji, there is a part of the Bahraini banking sector that is not well diversified because it is dominated by a handful of Saudi families that traditionally move in lockstep on investment decisions. Together, these families are known to lead or hold major stakes in Awal Bank, TIBC, Addax, Unicorn Bank, Al Baraka Group, Bahrain Saudi Bank, Capital Management House, Gulf Finance House, Takaful, Bahrain Islamic Bank, Arcapita, GBCORP, and Khaleej Investment Bank. When one of these groups shows signs of instability, it is often an indicator that there may be significant losses on the books of the others. Accordingly, Ajaji said that the CBB has placed auditors at the Bahrain Saudi Bank and Capital Management House, and is closely monitoring Addax Bank, Unicorn Bank, Al Baraka Group, and Gulf Finance House. (Note: Although the CBB has not frozen the accounts of Sanae, Khaleej Investment Bank has reportedly moved independently to freeze his accounts and lines of credit.)

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